Gated communities, sustainable cities and a tragedy of the urban commons

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Abstract

This paper explores the political, financial and environmental sustainability of private communities. Using a theoretical approach that views the private residential community as a *club economy*, we analyze the planning and managing practices of 219 gated residential communities in the Los Angeles area. This investigation demonstrates that private urban governance is a locally sustainable solution that might help stabilize the financing of urban growth, redevelop aging neighborhoods, maintain social diversity, conserve non-renewable urban resources, and encourage reinvestment in urban infrastructure. However, these gains are not made without social costs and spillovers. Breaking down municipal management into smaller units might deliver a more economically sustainable urban system on the whole, but only at the expense of marginalizing those excluded from the club economy. In addition, private urban governance is still dependent on state subsidy. This new urban dynamic will become more important as private associations attempt to increase the public subsidy of their activities and municipal governments look for ways to reduce their liabilities through private sector providers.

Introduction

In the USA, South Africa, China, Brazil and many other countries, the spontaneous actions of entrepreneurs have spawned a new urban product (privately governed urban neighborhoods) that will have a major impact on the form and function of future cities. Whether this phenomenon is economically and politically sustainable or not is the subject of this paper. [1]

To understand the phenomenon of private communities, we first must understand the arguments put forth by current scholars. First, gated communities are part of a trend towards the commoditization of urban public space (Dear and Flusty 1998; Sorkin 1992). Often this view is linked with a discourse on the spread of ideologies of fear developed by economic and political actors, including municipalities, the homebuilding industry, the security industry and the media (Davis 1998, 1990; Flusty 1994; Marcuse 1997). A second type of argument presents gated communities as a symptom of an urban pathology in which social polarization and exclusion are the principal risks. In this discourse, the decline of urban public spaces is detrimental to the poorest social classes and voluntary gating is associated with increased social segregation (Blakely and Snyder 1997; Caldeira 2000; Glasze, Frantz, and Webster 2002; Low 2003). Others view the shift from the 'public' city to urbanization by private enclaves as a "secession" of the elite and a regressive redistribution of resources and wellbeing (Reich 1991). Based on notions of equality and social justice, these arguments stand awkwardly, but not necessarily in

opposition, to the efficiency arguments for gating and private governance, which are based on the assumption that the public provision of services leaves potential welfare gains unrealized (Foldvary 1994).

As yet, no author has crossed these lines of debate to analyze the sustainability of the private city. In attempting this, we apply a theoretical approach that views the private residential community as a *club economy* to analyze the planning and managing practices of 219 gated residential communities in the Los Angeles area (Webster 2002).[2] We first examine how private communities might be pro-sustainability tools. Next, we consider whether private governance puts urban equilibrium at risk. Finally, we analyze how private governance might indeed lead to unsustainable local urban political economies.

Private communities as a pro-sustainability tool in managing urban growth

This section examines how urban territorial enclosure might yield sustainable benefits to the city. There are several underlying hypotheses. Compared to municipal-scale governance, micro-scale collective decision making is made on the basis of superior information and theoretically leads to a closer fit between the demand for and supply of local public goods and services. Secondly, most local public goods are consumed by sub-sets of the wider public and are therefore better supplied as 'club goods'.[3] Where a good is consumed as part of a 'club' but produced as a public good for the whole city, conflicts of interest will inevitably arise, typically leading to over consumption. Territorial enclosure (i.e. controlling access) is a mechanism for preventing over-consumption and premature degradation of urban public goods. The alternatives to territorial enclosure are regulation, taxation, and investment, all of which incur costs and have side effects. Controlling access (not necessarily restricting access, which is different) may be a less costly and more effective mechanism for preserving residential quality of life.

Thirdly, reorganizing a public city into a city of clubs may increase funds for collective goods. When property rights over collective goods are clearly defined, with responsibilities and liabilities established by law, there is a stronger incentive to reinvest. Given the growth of private communities, it is clear that many citizens are willing to be ‘double taxed’ to acquire better environmental conditions and services. Municipalities capitalize on this extra source of revenue by off-loading responsibilities to Home Owners Associations (HOAs). On the other hand, HOAs also attempt to capture general tax revenue for their residents.

Political, financial and environmental sustainability

Debates about gated communities are more about local territorial governance than about gates. U.S. Home Owners Associations are micro-governments with three basic characteristics: elected boards act as neighborhood decision makers, contracts govern resident’s behavior, and monthly fees finance local amenities and services. By 2000, over 15 % of the US housing was contained within these common interest developments, and the number of units in these privately governed residential schemes rose from 701,000 in 1970 to 16.3 million in 1998 (McKenzie 2003, 2005a, 2005b). In 2002 the Community Association of America estimated that 47 million Americans

were living in 231,000 community associations and that 50% of all new homes in major cities belonged to community associations (Glasze, Frantz, and Webster 2002).

The rapid growth of this phenomenon provides qualified support for the libertarian political-economy view that the public provision of collective goods and services is inefficient. This view holds that bureaucracies create diseconomies of scale and are wasteful. In part, these inefficiencies are explained by the lack of competition to check overgrowth and the information handicap bureaucracies face in the absence of prices. As a result, cities oversupply public goods, skewing their distribution toward the most powerful interests. These researchers see private communities as a more politically and financially sustainable institution. For example, since 1867, residents on private streets in St. Louis have financed their own collective goods (trash collection, street sweeping, security, etc.) according to their perceived value. Since public governments must estimate infrastructure and services demand, they risk under or oversupplying the market. Furthermore, many of the investments made by HOAs (or in the commercial sphere, by malls, science parks, etc.) can be capitalized in land rent. Not only do owners have an incentive to invest in their local environments, but also they can recover investment costs from rents (Foldvary 1994).

Generally, scarce resources are better enclosed than unenclosed (Webster 2005). Open access resources suffer from overuse, and those that are well-preserved incur high costs (Hardin 1968). [4] Indeed, a tragedy of the urban commons is played out in the public spaces, services, and infrastructure of cities throughout the world. This occurs for two reasons. Following Hardin, resources that are governed by shared use-rights tend to deplete through unrestrained competition. As this happens, demand for reassigning rights structure to protect against complete resource dissipation increases (Barzel 1997, Webster 2003; Webster and Lai 2003). These tendencies are observed at all spatial scales and in all kinds of resources, such as NIMBY movements, community groups who lobby for slow growth policies, and governments who introduce road pricing.

Responsive and resourceful governments attempt to manage overuse by imposing regulations, raising the capacity of congested infrastructure, and improving facilities and services. However, as rising incomes result in higher expectations and increasingly differentiated tastes, even the most responsive governments have little hope of managing citizen demands in a way that avoids premature depletion. Civic goods and services provided through taxation will always be undersupplied, either through limited tax funds or rising expectations.

Not only do residential clubs contribute to the financial sustainability of urban governance, but also they provide a way of preserving, protecting and enhancing the 'urban commons'. [5] The introduction of road pricing in Central London illustrates these trends. What was formerly a public good subject to overuse and degradation was converted overnight to a club good in which the user pays. Membership is on a pay as you use basis; fees are set to balance demand and supply of central area road space. By assigning property rights to road space, the municipality has lowered demand and increased revenues for road investment and management, factors which produce a more sustainable transport system land-use pattern.[6]

Fiscal sustainability – the cash cow factor

Gated neighborhoods also enable public authorities to manage growth with greater fiscal sustainability. Figure 1 shows that gating is highly correlated with fiscal gaps progressively experienced by local government bodies.

Rolling Hills (1935) and Bradbury (1938) were the first gated communities in Southern California. After World War II, these were accompanied by well-known developments such as Hidden Hills (1950) and the original Leisure World at Seal Beach (1946). Although there were 1,700 gated housing units in the Los Angeles area by 1960, the development of enclaves such as Leisure World (1965) and Canyon Lake (1968) resulted in 19,900 gated units by 1970 (Le Goix 2003). Since developments after 1970 were smaller, the growth rate decreased: 31,000 gated housing units existed in 1980; 53,000 in 1990; and 80,000 in 2000. In 2000, these units represented approximately 12 % of the new homes market in Southern California.[7]

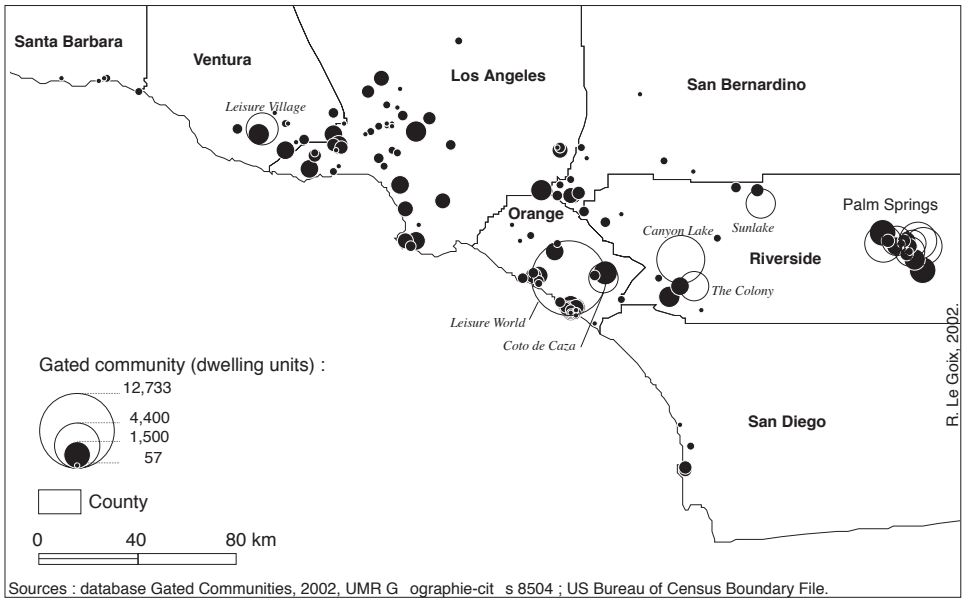
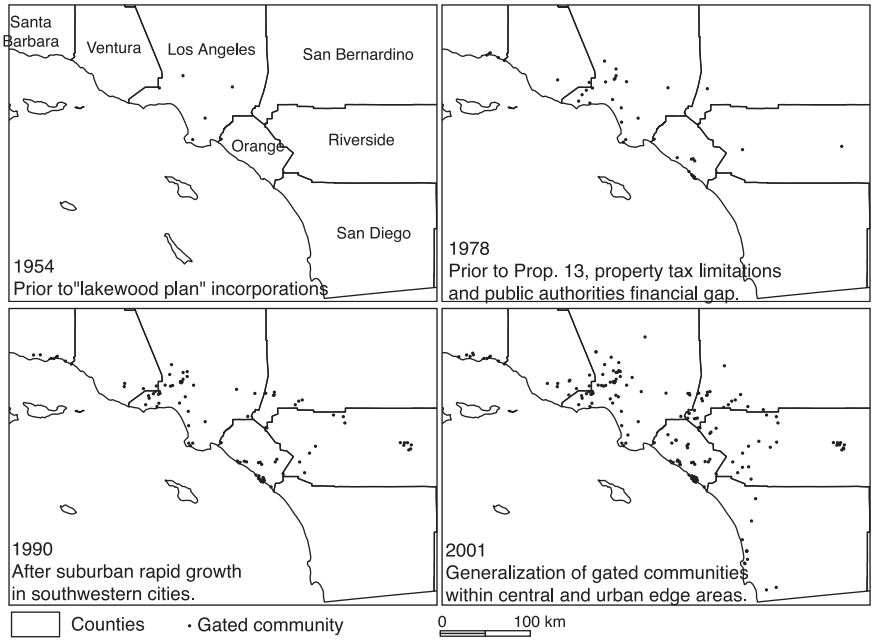


Figure 1. The size and location of gated communities in the Los Angeles area.



Sources : US Bureau of Census Boundary Files, database Gated communities UMR Géographie-cités / Le Goix 2002.

Figure 2. The diffusion of gated communities in the Los Angeles area.

The regional diffusion of gated communities is related to suburban growth, an endemic anti-fiscal posture, and municipal fragmentation (Figure 2). These three conditions have frustrated local planning efforts: although urban sprawl has generated an increased need for infrastructural development, property tax limits and fragmentation have reduced local governments' financial resources. [8] As a result, gated communities, which bring wealthy taxpayers at minimal cost, have become the perfect cash cow for local municipalities (McKenzie 1994).

Table 1. A dominant market share in the fastest growing areas of the Los Angeles region

		% of gated enclaves among new residential developments		
County	**Subdivision**	APR 2000	DEC. 2000	DEC. 2001
San Diego	**Total**	**4.7**	**7.2**	**5,1**
	South S.D. County	0	0	6,7
	North S.D. County	5.8	9.3	4,8
Riverside	**Total**	**5.9**	**5.9**	**14,3**
	Desert and Resorts living	23.1	60.0	50,0
San Bernardino		**0,0**	**3.2**	**5.9**
Orange	Total	7.5	9.0	20,2
	North Orange Co.	10.0	9.5	21,4
	South Orange Co.	3.4	9.7	21,2
	West Orange Co.	8.5	8.1	18,9
Los Angeles	**Total**	**9.1**	**10.3**	**11,9**
	San Fernando valley	25.0	40.0	30,8
	Santa Clarita / Lancaster	2.4	2.0	4,2
Ventura	**Total**	**7.3**	**11.8**	**13,3**
Total number of developments		432	417	381
% Gated Communities		**6,5**	**7.7**	**12.9**

Sources : Advertisements in *New Home Buyer Guide, Southern California,* April 2000, December 2000, Decembre 2001.

As Table 1 shows, gated communities now represent a major share of the market in the fastest growing parts of the Los Angeles region, especially in Orange and Riverside counties where the population has boomed since the 1960s. Since 1990, the growth rate has remained high, averaging 14% between 1990 and 2000. By providing their own security, infrastructure and services, these developments reduce public financial responsibility. As compensation, homeowners are granted exclusive access to their neighborhoods, a condition which enhances location rent and positively affects property values (Lacour-Little and Malpezzi 2001; Le Goix 2002). Thus, these developments are instrumental in transferring the cost of urban sprawl from public authorities to private developers and homeowners.

Also, to the extent that gating increases property values, a municipality's property tax revenues also increase. Not only are cities exempt from paying for most of private communities' security, service and infrastructure, but also rising property values increases funds to pay for enhanced public programs and goods. This illustrates the point we have already made – that the club neighborhood is an institution that can help sustain city growth by unlocking more resources for collective goods and services. This may cease to be the case if club residents were able to opt out of certain tax municipal obligations, but even then, they may be willing to pay more for private urban governance than for public urban governance, just as private some families are willing to pay more for private education than state education.[9]

In Calabasas (west of Los Angeles), where 30% of the housing stock is locked behind gates, the City reinvests 13% of its operational budget in landscaping and leisure centers, such as a public golf course. All of these facilities are within the vicinity of Calabasas Park, the main gated area. This represents a complex synergy in which the municipal government derives fiscal benefit from private enclaves while subsidizing the provision of leisure amenities to enclave residents (Le Goix 2005). Public officials and developers acknowledge not only the fiscal *quid-pro-quos* of private neighborhoods, but also the benefits of increased density, which preserves open space and enables architectural diversity (Ben-Joseph 2004).

Although some developers are able to maintain profits while producing environmentally sustainable and affordable developments, the vast majority perceive that planning regulations, such as requirements for open space, land dedications, and water systems layout and hookup fees, are excessive (McKenzie 2003; Ben-Joseph 2004). Indeed, private communities proliferate under several interesting dynamics, involving on one hand, public governments enlarging their tax-base and on the other hand, developers seeking to offset the burden of public planning regulations through flexible design within private subdivisions (Ben-Joseph 2004).

Economic sustainability – the functional integration factor

When a high-income gated community was built next to a poor squatter community on the outskirts of Santiago, Chile a few years ago, lower-income residents welcomed their new neighbors as sources of employment. The new development also brought trunk water, sewerage and other utilities to the location, services that the squatters had lobbying for unsuccessfully for years (Salcedo and Torres 2004). In turn, the wealthier residents valued their poorer neighbors, who supplied essential trades and services. Surprisingly, this ethnographic study documented that inter-community relations were much healthier than the intra-gated community relations

(gated residents did not always speak well of each other but spoke well of their poorer neighbors).

It also is possible that gating, by creating a closer proximity of income groups, increases trades in some urban areas – especially in municipalities with high levels of income segregation. Thus, gating may make a city more economically sustainable by reducing travel distance. For instance, many complexes in Northern San Fernando Valley (near Sylmar, North Hills and Panorama City) and *Kaufman & Broad*'s schemes in Northern Orange county (Lori Lane in Garden Grove and Stonegate in Anaheim, developed in 2000) are small infill developments of less than 50 units or semi-detached residential complexes retrofitted with gates in areas where property values are highly varied. These are mostly in Hispanic or Asian neighborhoods, heavily urbanized during the mid-1960s, and developers now use gates and HOAs as a renewal tool (see Figure 3). According to real-estate agents in Lori-Lane and Stonegate, these are "executive communities" appealing to the "snob value" of prospective buyers. They were originally targeted at ethnic niches in the housing market and might help to keep wealthier residents in these cities. If this happens, they may increase local job opportunities for existing residents as higher income owners demand more shops and services, a process already observed in London's inner city Boroughs.

Urban equilibrium at risk

As explored above, a city of clubs may be more sustainable than a public city. However, there are many well-founded arguments against private neighborhoods as well. In this section we consider whether pre-emptive neighborhood protection carries risks for other city residents, factors which potentially may render urban areas unstable and chaotic.

Cities are land-use systems consisting of interpenetrating private and public spaces governed by complex patterns of property rights (Scott 1980). The production of urban space by owners of capital (developers, manufacturers, homeowners) means individually optimal, subjective decisions have a social cost. Private transactions generate spillover effects, such as material and auditory pollution, road congestion, and underused land. From one point of view, these externalities are market failures: since market based transactions fail to give them a price, third parties inefficiently bear the costs. Neighborhood clubbing is a private, pre-emptive solution to market failure. However, although it supplies residents with greater power to reduce spillovers, it also imposes externalities on its neighbors.

Long-term system stability: status exhibition vs. segregation

Resident filtering occurs when restrictive covenants and property values limit potential candidates for homeownership. The result is neighborhood homogenization by wealth, age, race and status. Whether the homogenizing effects of privately governed communities are greater than those of conventional neighborhoods is an empirical question, the answer to which depends on local context. Market-driven cities tend to filter people by income or race into well-defined areas. Micro regulation through private covenants and exclusionary zoning further increases segregation. Yet Los Angeles gated communities are available within every market segment (Figure 3). While the majority is located within upper- or middle-class white areas, 20% of the surveyed communities were located within middle- and lower-income Asian or Hispanic neighborhoods, which proliferate in the northern parts of Orange County and San Fernando Valley (Le Goix 2003, 2002). This illustrates the diversity of the gated community phenomenon, as Sanchez and Lang also document (2003, 2005) using a nationwide sample of census data. Contrary to popular conceptions, gated communities are not solely composed of wealthy, white and retired residents; buyers of various classes seek to purchase homes in clubbed neighborhoods.

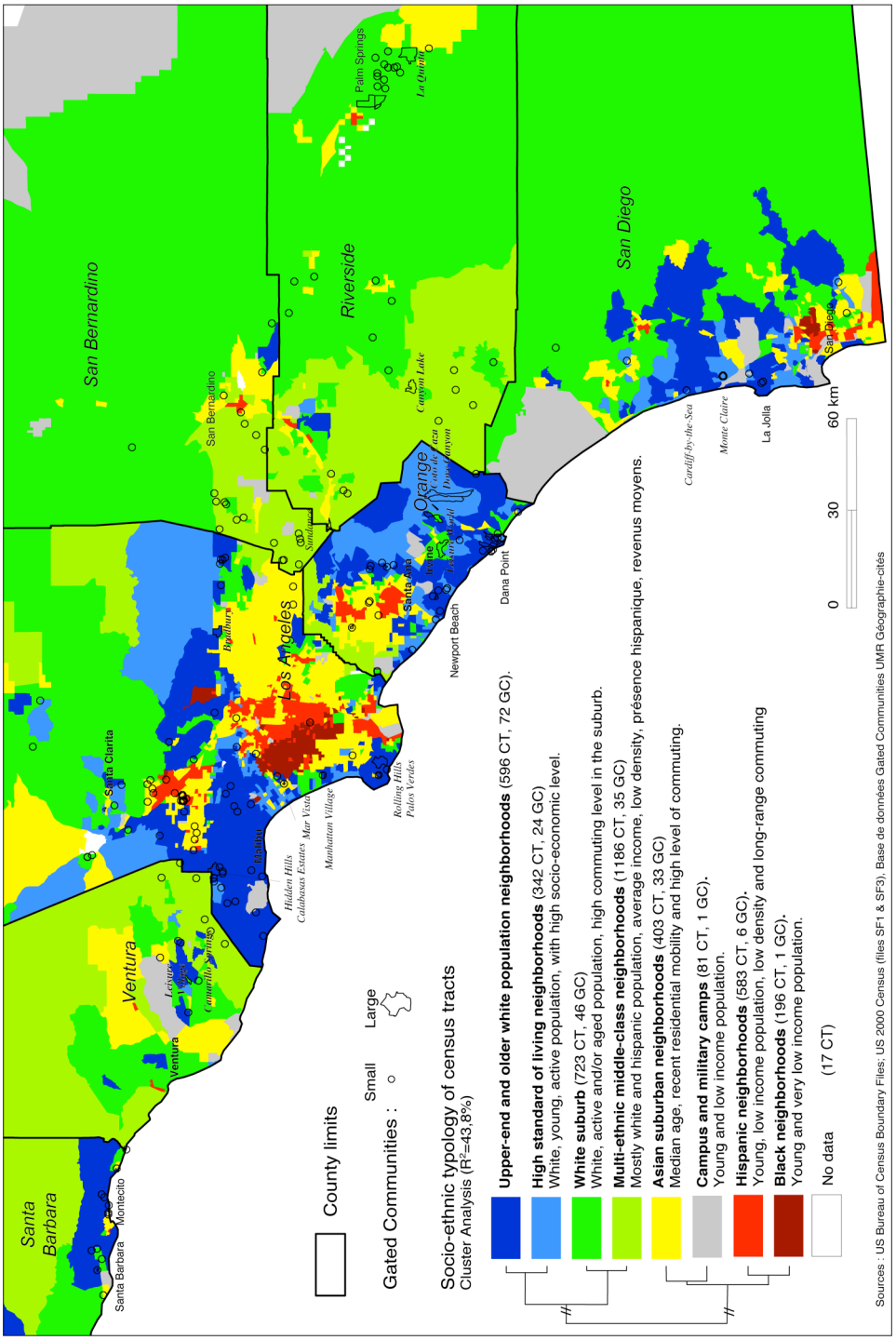


Figure 3. Gated communities in their socio-economic environment.

The way in which gated communities differentiate themselves from abutting neighborhoods is a complex issue. Although developers try to assure that prospective buyers will feel comfortable in the broader neighborhoods, they also provide them with the 'snob value' of a status exhibition. Following these practices, social patterns inside gated communities should be generally consistent with abutting communities. However, where development sites are in short supply,

this may not always be possible, and where the gated development is large enough, the area effect may not act as a disincentive to buyers. In addition, it is more likely that a large, high-end CID development would locate near lower-income neighbors than upper-class single-family homes. Municipalities often encourage these gentrifying actions, which increase the local tax base. Consequently, gated developments have a powerful ability to sort people into preference-related groups and to intensify income-related and status differentiation.

Data from the 2000 Census shows that gating increases social and economic segregation (Le Goix 2005). The combined effects of property values and community socio-economic structure create 1.7 times more segregation between gated developments' block groups and abutting areas than in non-gated neighborhoods. Secondly, gated communities are 2.7 times more likely to be segregated by age from adjacent areas than other neighborhoods. Indeed, gated developments attract middle-aged people and seniors, who desire to protect the lifetime investment capitalized in their home. Finally, the effect of race or ethnicity must be analyzed carefully: findings show that gated communities do not generally create 'worlds apart'. All else being equal, gated communities are 2.5 times less likely to be segregated by race or ethnicity than other regions of the city (Le Goix 2005). Nevertheless, Figure 3 shows that many gated communities locate within ethnically homogeneous neighborhoods. Many developers, concerned that diversity may deter potential buyers, intentionally locate in these areas.

In sum, the evidence on the segregation effects of gated communities is mixed. While in some circumstances they may encourage investment in poor neighborhoods and facilitate the functional economic integration between income groups, in others they may reinforce historic segregation patterns.

Local interaction effects

In theory and practice, the spillover effects of public-private transactions often favors gated community residents and their property values at the expense of adjacent, non-gated neighborhoods.

By physically blocking an area, gating may increase congestion and noise on neighboring streets (Burke and Sebaly 2001). In addition, internal property and homeowner behavior regulations may create property premiums within gated developments while reducing the value of non-gated, adjacent properties (Bible and Hsieh 2001; Lacour-Little and Malpezzi 2001; Le Goix 2002). However, neighboring properties may also enjoy increased prestige and value. Therefore we suggest caution once again about generalizations in this respect. Much depends on external, regional factors, such as the nature of the local housing market. Where there is an excess of middle-income housing, for example, an emergent gated neighborhood market may deflate the values of neighboring, middle-class homes. This is also evident in waves of house or office building and is not necessarily a peculiar effect of gating. On the other hand, if middle income homes are in short supply, a gated development in a deteriorating neighborhood may well uplift the value of non-gated properties, bringing them into more valuable use.

Gated communities may also divert crime onto neighboring properties. As widely discussed, gated communities proliferate within a climate of growing security concerns. In Argentina,

Brazil, the U.S., Mexico and Europe, gating is associated with a lack of confidence in public law enforcement (Caldeira 2000; Querrien and Lassave 1999; and Low 2001). The theory of gating as defensible space was developed by Newman (1972) and the *Institute for Community Design Analysis*. These practices are now commonly called *Crime Prevention through Urban Design* and are intended to increase safety in residential areas by changing spatial perception, controlling public circulation, and increasing private ownership. The erection of street barriers in retrofitted residential neighborhoods is a way to enforce public safety and control gang activities. Managers and developers have employed these practices in several low-income and public housing subdivisions, such as Mar Vista Gardens and Imperial Courts in South Central Los Angeles (Leavitt and Loukaitou-Sideris 1994).

Allocating responsibilities and liabilities

If the inhabitants of a city of clubs are more satisfied with the quality of goods and services they receive from their financial contributions to urban governance, then the city is more politically sustainable. However, gating also may throw social and political systems out of equilibrium and make cities less politically sustainable. In this respect the history of urban governance in a region matters. Virtually all new urban development schemes in contemporary China, for example, are gated and are governed and managed privately. There is no alternative history governing market-driven development; urban enclosure is widely accepted (Webster, Wu, and Zhao 2005). This represents a transition in urban mixed-market cities from municipal to club governance. The remaining part of our discussion in this section addresses whether private governance might also lead to an unsustainable local urban political economy. It is based on a case study of the city of Laguna Woods, a.k.a. Leisure World, a 1964 development of 19,500 residents aged 55 years or older.

The breaking down of municipal management into smaller units might in the end deliver a more sustainable urban political economy on the whole, but only at the expense of marginalizing those excluded from the “club economies” in *minimal cities* (Miller 1981). How sustainable this is depends on the wealth redistribution institutions that arise in the “club cities.” CIDs are both public actors and private governments. The developer and the subsequent homeowner association substitute for the public authority and privately provide a public service (Kennedy 1995; McKenzie 1994). But some gated communities also transform into public entities by incorporating into autonomous cities or taking part in a broader incorporation process. This issue is important in understanding the nature of the new territorial maps built by gated enclaves.

Incorporated gated communities include Bradbury and Rolling Hills (1957); Hidden Hills (1961); Canyon Lake (1991); and Leisure World (1999). Enclaves incorporating as part of a new city where a substantial part of single-family housing developments is gated include Dana Point (1989); Calabasas (1991); and Dove Canyon (incorporated with Rancho Santa Margarita in 2000). Incorporations happen for two primary reasons. On the one hand, they aim to prevent a potential annexation by a less affluent community looking for an extended tax base (Rolling Hills, Hidden Hills, for instance, or Rancho Mirage and Indian Wells in the Palm Springs area). On the other, they aim to protect local lifestyles, values, and planning control (Leisure World, Canyon Lake, Dana Point, Calabasas) (Le Goix 2005). After incorporation, local affairs are shared with private homeowners associations, which take charge of road maintenance, security

and compliance with land use regulations and restrictive covenants. These *minimal cities* also reduce operation costs by contracting with the county and other public agencies to supply public services, such as police, water, sewers and fire (Miller 1981). Instead of acting as a separate entity, minimal cities are extensions of their HOAs.

The incorporation of the gated community of Leisure World as the City of Laguna Woods is a peculiar case. As the largest gated retirement community of the West Coast, incorporation was necessary because of the lack of active resident involvement in the operations of the *Golden Rain Foundation* (the master association of the community). Several regeneration projects had been considered since 1964, but were never passed. After Orange County forced its bankruptcy in 1998, the situation changed radically. The County encouraged urbanized areas to incorporate and proposed that new *minimal cities* should use the local tax-base to supply the residents with improved public services, contracting with the County for basic services. Leisure World had several options. One was a joint incorporation with nearby communities housing younger populations in Laguna Hills or Mission Viejo. This option was rejected because of the obvious divergence of interest between a young population interested in public education and a retirement community. Another option was to be annexed by the large municipality of Irvine, but this gave rise to another conflict that helped to make the decision. Irvine supported a project for an international airport, but the approach path would have crossed over Leisure World. According to Robert Ring, residents felt incorporation by itself - the third option - could be used to fight the International Airport project in El Toro. Incorporation also allowed the private government better access to rent-seeking strategies.[10] Table 2 analyzes some of these in recently incorporated Los Angeles area municipalities that are predominately composed of gated communities. It suggests that by incorporating, local leaders seek :
- to prevent their upscale fiscal basis from being redistributed in other (poorer) areas, a common goal in incorporation driven by upscale U.S. developments (MILLER 1981);
- to legally transfer public resources and assets for the profit of exclusive and enclosed neighborhoods ;
- to legally obtain public infrastructure financing within gated areas (LE GOIX 2005).

Table 2. Private Community Incorporation : sharing responsibilities and liabilities ?

Incorporations of private communities : sharing responsibilities and liabilities ?

				Services and amenities transferred from the POA to the municipality after incorporation*		**Miscellaneous costs and liabilities transferred to the municipalities**
Gated Community (development date)	**City** (Incorporation date)	**Nb housing units in GCs**	**% of GC housing in city***	*Externalization of services formerly operated by POA*	*New services provided by municipalities*	
Rolling Hills POA (1936)	City of Rolling Hills (1957)	636	100%	Building permits. Trash collection, recycling program	-	- Property of leisure facilities, let to the POA for a nominal fee. - Instrumental in implementing exclusionary zoning.
Hidden Hills POA (1950)	City of Hidden Hills (1961)	592	100%	Building permits	-	- Instrumental in implementing exclusionary zoning. (paid $ 1 million to prevent the development of public housing)

Indian Wells / Eldorado POA (1957)	City of Indian Wells (1967)	2,135	56%		Development of municipal high-end amenities : *The Golf Resort*, College, Recreational Center.	
Canyon Lake POA (1968)	City of Canyon Lake (inc. 1991)	4,047	100%	Building permits, transfer of property of parks, greens, access roads abutting the gated community	Youths Services	Instrumental in implementing slow-growth policy : planned to acquire undeveloped Federal Land to avoid further development.
Calabasas Park (1978)	City of Calabasas (1991)	2,228	30%		Creation of public parks and a golf (13% du budget) close to private enclaves.	Refinancing by the municipality of a $ 30 millions debt previously paid by Calabasas Park Homeowners for landscaping and streets improvements (Community Facility District)
Leisure World - Golden Rain Foundation (1964)	City of Laguna Woods (1999)	12,736	100%	Building permits ; transfer of property and maintenance of parks, greens, access roads and ramps abutting the gated community	Improved police service (+ 30% manpower)	Project of transferring sewer and trash collections (municipal bids). Municipal grants for the Senior Center ($100,000/year) to organize events accommodating residents
Pelican Hills (2000) -- *300 units built in 2001 ; 4000 forecast in 2010*	Annexation by Newport Beach (1.1.2002)	1,790 (in 2000)	4,8	Free trash removal, transfer of property and maintenance of parks, greens, access roads and ramps abutting the gated community	Building of a Community Center, a gymnasium and a library (total : $ 7 millions). Improved security and police services (+ 2 vehicles).	Refinancing by the municipality of a $18 millions debt previously paid by Pelican Hills' homeowners (by the means of a Community Facility District)/

Sources : 2000 Census, 1999-2002 Author's survey and database Gated.Communities © R. Le Goix, 1999-2005
* Ordinary transfers of jurisdiction from the county to the incorporated municipalities are : police and fire department, planning and building permits.

At the end of the 1990s, Leisure World's obsolescence had reached a critical level; it needed a long-term renewal strategy. For example, according to a 2001 report to the POA[11], 86% of the housing units did not fit the safety requirements for heating and electrical systems and 72% did not provide enough square footage compared to contemporary standards. Electrical, water, telephone and sewage systems were between 25 and 36 years old and needed to be replaced. Shifts in Leisure World's property values also indicated its decline. Although during the 1980s average annual change was 15.1%, a rate equivalent to adjacent tracts, during the 1990s values depreciated. In this context, homeowners were unable to pay to maintain the gates, sewage system, lighting, and walls--improvements totaling over 31 million dollars (more than five million dollars over their annual budget). In this case, private governance provided public goods far less efficiently than standard non-gated developments in the vicinity. The club economy failed, demonstrating that gated communities often require public sector subsidy or must become incorporated cities to subsist. Indeed, in 1999 Leisure World incorporated as the city of Laguna

Woods, with public subsidizing sewer and transportation upgrading (Le Goix 2003; Le Goix 2005).

Leisure World illustrates the dangers of offloading municipal governance responsibilities to private entities, a decision which may lead to massive failures down the road if adequate provisions are not made. Thus, in some circumstances, fragmentation yields short term efficiencies at the expense of long-term system disruption with potentially high recovery costs. Homeownership inside a gated community is primarily a real-estate investment — offering property security. Secondly, it offers security of lifestyle. And thirdly, it is a private attempt to gain local control over a local environment – which adds to the security of property and lifestyle. But gated communities have a private cost (as distinct from the social cost discussed already). Homeowners must sustain both the costs of infrastructure construction and maintenance. In Tiebout's market-clearing city system, citizens choose location to balance the quality of public services with their costs. Perfect knowledge and perfect mobility brings a perfectly efficient supply of public goods via the exercise of choice (Tiebout 1956). Where a HOA market is extensive and mature, this might also be applied within a city--people gravitate to neighborhoods that give them their preferred bundle of priced goods. This assumes, however, that a homeowner association is always more effective than a public central government in providing collective goods in a way that meets residents' demands. As evident from our case study, this logic can break down. Inadequate information, state enabling legislation, management and product design can render a private neighborhood unsustainable. Leisure World was not well managed and failed. Being a real estate product, its consumers could not easily exit the market (there are particularly high transaction cost in real estate markets compared to other markets such as stock and financial markets for example). They had to be bailed out by institutional reform (public incorporation).

We draw two conclusions from this analysis. First generation private neighborhoods -- experimental in design and without the safeguards of sophisticated enabling and protecting state legislation -- may well prove to be unsustainable communities. Some will fail, others will have to be bailed out. This is clearly the case with the first generation of condominiums in Asian cities built during the 1970s and 1980s, many of which are falling into disrepair (Malek 2002). Yet in responsive political economies, government legislation will evolve and make these problems less likely to occur in the future. Condominium and other forms of co-ownership laws are rapidly evolving, putting in safeguards and gradually redefining the boundary between public and private urban governance (See Chen and Webster 2004 and Webster and Le Goix 2005). The sustainability of clubbed cities rests in the context of the shifting boundaries between public and private ownership and liability for collective affairs.

Conclusion

Private urban governance has the potential to stabilize the financing of urban growth, redevelop aging neighborhoods, maintain social diversity, localize decision making, protect non-renewable urban resources, raise city maintenance revenues, and foster cross-income trade and integration. But these gains are not made without social costs and spillovers. Although some are trivial, others are critical for urban sustainability. Private neighborhood markets may solve some of these problems we have noted. For instance, entrepreneurs often use new technologies and legal

innovations to turn externalities into markets. Yet without state intervention, they will ignore consequences beyond their payback period. On the other hand, through overregulation, localities may lose the features of private neighborhoods that may help make cities more sustainable.

Private urban governance is dependent on public subsidy and national laws. Without these conditions, it will degenerate under costly competition fought out in public and private courts. It also needs to coordinate with public government in the provision of higher level civic goods and services. The alternative is for small private neighborhoods to federate, but this leads to an outcome resembling public government by incorporation. At the heart of the issue is the sustainable division of responsibilities between private and public governments. HOA contracts are inevitably incomplete and require public underwriting. Lawmakers and policy makers will have to manage risks by mitigating social costs and contributing to redistributive taxation, thus shaping a more equitable outcome.

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1 Unless otherwise noted, by sustainability, we mean political, financial and environmental sustainability. This is indeed the usual meaning found in reports and researches on cities and sustainable development, UN Conference on Human Settlements Habitat II, 1996; Global Conference on the urban future URBAN 21, 2000. For further reference: http://www.sustainable-cities.org.

2 The database is based on a set of 219 gated communities built before 2000 and located in 7 counties of the Los Angeles area (Los Angeles, Riverside, Orange, Ventura, San Bernardino, Santa Barbara and San Diego). This database is derived from the same sources that a prospective homebuyer would use (realtors' listings, advertisements) and was supplemented with materials from interviews with local officials, as well as data from assessment maps and the 2000 Census.

3 A club good is a category of good (or service or resource) distinguished in the economics literature from a private good on the one hand and a public good on the other. It is similar to the idea of a local public good and the terms overlap in meaning. Club goods are collectively consumed, like public goods, but by a finite set of consumers. Theoretically, a public good is capable of being consumed without congestion by an infinite set of co-consumers. An economic club (an organization supplying a club good) may be organized by an entrepreneur or government. Where distance or culture create barriers to consumption, clubs may form spontaneously (here is the overlap with the idea of local public goods). The big thing about clubs is that they permit co-consumed goods to be supplied efficiently – by the organizers exercising control over (a) the number of consumers and (b) the quantity and quality of the good. Clubs exercise such control via membership rules and fees. See Cornes R and Sanders T (1996) The theory of externalities, public goods and club goods. Cambridge: CUP, for a heavy duty introduction to the economic theory of clubs and Webster C and Lai LWC (2003) Property rights, planning and markets, Northampton MA and Cheltenham UK: Edward Elgar, for an application to urban theory

4 Biologist Garrett Hardin suggested in his seminal 1968 article on the tragedy of the commons, that "As a rational being, each herdsman seeks to maximise his gain. Explicitly or implicitly, more or less consciously, he asks, "What is the utility to me of adding one more animal to my herd?" This utility has one negative and one positive component. 1. The positive component is a function of the increment of one animal. Since the herdsman receives all the proceeds from the sale of the additional animal, the positive utility is nearly +1. 2. The negative component is a function of the additional overgrazing created by one more animal. Since, however, the effects of overgrazing are shared by all the herdsmen, the negative utility for any particular decision-making

herdsman is only a fraction of -1" (Hardin, 1968, p.115). His point was that commonhold resources tend to deplete because each consumer enjoys 100% of the benefit of consuming an extra unit but bears only a fraction of the cost – which is shared with others.

5 Financially sustainable if well managed. See discussion later in the paper.

6 We use the term 'property rights' in the sense used in the economic theory of property rights, to mean legal or de facto rights to benefit from the use or disposal of a resource or some attribute of a resource (see Barzel Y (1997) Economic Analysis or Property Rights. Cambridge: CUP). The road tariff grants a legal right to the use of road space in Central London for a certain period. The idea that property rights subdivide in some proportion to the rate of population and economic growth is an important one for understanding the process of economic specialisation and spatial concentration that we call urbanisation (Lee and Webster 2006). Consider the process of rural land enclosure. A substantial amount of common land rights were formally in existence in Britain until the Tudor times. In the 16th century, however, a sharp change in land value occurred as the demand for wool and cloth rose quickly and sheep farming became the most profitable form of agriculture. Exclusion of the commoners from free access to land was necessary if the landlords of England and Wales were to capture more of the value of their assets. Fences and hedges were erected and field patterns emerged. The cost of establishing these physical barriers was substantial. For owners of small parcels of land it was excessive which led some to sell what they owned to other landowners. For those able to afford it, however, the cost of enclosure was clearly exceeded by the expected returns from the increased sheep acreage and by the 19th century, more than 7 million acres of rural Britain were enclosed.

7 Interestingly, some developments occupied land that was originally fenced and gated. For example, Rolling Hills and Hidden Hills used to be farm and ranching land and were gated to control cattle. Developers kept and reconditioned the former gated entrance of the ranch to make it their own. Canyon Lake used to be a summer camp and trailer park - also a gated land-use. It became a 9,500 person gated residential development in 1968.

8 In Los Angeles, the anti-fiscal posture has been associated with the incorporation of numerous cities – the first of which was Lakewood (1954). Incorporation is the legal process by which unincorporated land (under county's jurisdiction) becomes a city, through the approval of the State (in California, the LAFCO, Local Agency Formation Commissions are in charge of supervising the process) and 2/3 of the voters. A new municipality can either be granted a charter by the State as large cities are, or be incorporated under the general law, which is the common case. Localities incorporated to avoid paying costly county property taxes and attain local control over development and other municipal affairs (Miller 1981). A second step was the 1978 "taxpayers' revolt" – a homeowner-driven property tax roll-back known as Proposition 13 (Purcell 1997). Passed in 1978, the Jarvis Grann Initiative introduced a 1% limit on the assessed value for property taxes and a maximum annual increase of 2 per cent. This tax limitation increased the need for public governments to attract new residential subdivisions, especially those that would bring wealthy taxpayers into their jurisdiction. A third influence on the spatial diffusion of gated enclaves was the rapid growth of the Los Angeles area, sustained by massive population flows during the 1980s.

9 Up to now, Courts have rejected requests by gated community to opt out from municipal taxation (i.e. : the double-taxation debate). Some tax rebates have been granted, but these are exceptions (Kennedy 1995).

10 ‘Rent seeking’ refers to behavior whereby an individual, firm or government seeks to obtain benefit by manipulating the economic and political environment rather than through productive wealth creation and trade.

11 Ring R. 2001. Leisure World Housing. Laguna Woods: Senior Citizens Advisory Council, Feb. 2d, 2001; Leisure World Staff Report Dec. 5th, 2000 ; Leisure World / Laguna Woods. Golden Rain Foundation 1999-2000 Progress Report (2000).